

Spending Less Time with the Family: The Decline of Family Ownership in the UK.

Finance Working Paper N°. 35/2004

January 2004

Julian Franks
London Business School,
CEPR and ECGI

Colin Mayer
Said Business School,
CEPR and ECGI

Stefano Rossi
London Business School

© Julian Franks, Colin Mayer and Stefano Rossi 2004. All rights reserved. Short sections of text, not to exceed two paragraphs, may be quoted without explicit permission provided that full credit, including © notice, is given to the source.

This paper can be downloaded without charge from:
<http://ssrn.com/abstract=493504>

www.ecgi.org/wp

ECGI Working Paper Series in Finance

Spending Less Time with the Family: The Decline of Family Ownership in the UK

Working Paper N°. 35/2004

January 2004

Julian Franks
Colin Mayer
Stefano Rossi

This paper has been written for the National Bureau of Economic Research Programme on the History of Corporate Ownership: The Rise and Fall of Great Business Families. We are grateful for helpful suggestions on this and a companion paper (“The Origination and Evolution of Ownership and Control”) from participants at conferences at the American Finance Association meetings in Washington DC, January 2003, the NBER Programme Meetings in Boston and at Lake Louise, and the RIETI Conference on Comparative Corporate Governance: Changing Profiles of National Diversity in Tokyo, January 2003, and at seminars at Cambridge University, the London Business School, the London School of Economics and the Stern School, New York University. We have received very helpful comments from Barry Eichengreen, Charles Hadlock, Leslie Hannah, Gregory Jackson, Kose John, Hideaki Miyajima, Randall Morck, Hyun Shin and David Webb. We are very grateful to Leslie Hannah for data on consolidations and mergers in the UK.

© Julian Franks, Colin Mayer and Stefano Rossi 2004. All rights reserved. Short sections of text, not to exceed two paragraphs, may be quoted without explicit permission provided that full credit, including © notice, is given to the source.

Abstract

Family ownership was rapidly diluted in the twentieth century in Britain. Issuance of equity in the process of acquisitions was the main cause. In the first half of the century, it occurred in the absence of minority investor protection and relied on directors of target firms protecting the interests of shareholders. Families were able to retain control by occupying a disproportionate number of seats on the boards of firms. However, in the absence of large stakes, the rise of hostile takeovers and institutional shareholders made it increasingly difficult for families to maintain control without challenge. Potential targets attempted to protect themselves through dual class shares and strategic share blocks but these were dismantled in response to opposition by institutional shareholders and the London Stock Exchange. The result was a regulated market in corporate control and a capital market that looked very different from its European counterparts. Thus, while acquisitions facilitated the growth of family controlled firms in the first half of the century, they also diluted their ownership and ultimately their control in the second half.

Keywords: Family ownership, control, takeovers

JEL Classifications: G32

Julian Franks

London Business School - Department of Finance
Sussex Place
Regent's Park
London NW1 4SA
United Kingdom
phone: +44 20 7262 5050 x3449, fax: +44 20 7724 3317
e-mail: jfranks@london.edu

Colin Mayer

University of Oxford - Said Business School
Park End Street
Oxford OX1 1HP
United Kingdom
phone: +44 1865 288919, fax: +44 1865 288805
e-mail: colin.mayer@sbs.ox.ac.uk

Stefano Rossi

University of London - London Business School
London WC1E 7HU
United Kingdom
e-mail: srossi@london.edu

Entrepreneurial Britain

I strut around my stately life
Hand in hand with lover and wife.
I even own a share or two
In a family firm my father grew.

Of course I have not the slightest view
On what this firm is supposed to do.
Nor have I any reason to care
Since *in absentia* I sit in a Chair,
Of a Board that yesterday I chose to hire
And tomorrow I've decided that I will fire.

1 Introduction

The UK is a strange country. It does not have concentrated ownership; most countries do. It does not have pyramid structures; most countries do. Family ownership is of limited significance; in most countries it is extensive. There are few dual class shares; in many countries they are extensive. It has an active market in corporate control; elsewhere, it is largely non-existent.

By way of a measure of its oddness, Becht and Mayer (2001) report that in a majority of listed Austrian, German and Italian firms there is a single voting block of shares that commands a majority of votes in these companies. Families account for 45% of blocks in Austria, 32% in Germany and 30% in Italy. The average size of the blocks is 26% in Austria, 27% in Germany and 20% in Italy. In the UK, on average the largest voting block will usually cast under 10% of votes, while less than 5% of blocks are attributable to families and the average size of their blocks is only 5%. There is a stark contrast in the significance of families in corporate control between the UK and the rest of Europe.

Even by the standards of the US, the UK is odd. Dual class shares are by no means absent from the US. As the paper by Becht and De Long in this volume documents, powerful families established some of the largest corporations in the US and pyramids were at least at one stage widespread. The US may be odd but Britain is odder.

Why is the UK so different? Was it always so deviant? The British business history literature would seem to suggest not. Family ownership has been a dominant theme in

British business history. Alfred Chandler developed a thesis of comparative industrial performance around differences between managerial capitalism in North America and family organizations in Europe.¹ He argued that the UK was held back at the turn of the century by a continuing reliance on family as against professional managerial capitalism. Successes were restricted to industries in which there were modest investment requirements, most notably branded packaged goods. Companies such as Beechams, Cadbury, Colman, Reckitt and Rowntree were dominated by their owners and had little professional management. The consequences were most seriously felt in those industries that required large-scale investments - chemicals, electrical equipment and metals; these declined markedly in relation to their German and US competitors. David Landes described the stereotypical image of the British family firm as being an organization founded by fanatical fathers and succeeded by squabbling siblings who “worked at play and played at work”.²

It looks as if at the beginning of the 20th century, Britain like most other countries was dominated by powerful families. They may have been incompetent but at least they were there and presumably their extinction was a consequence of their incompetence. According to this view, the origins of the British corporate system are quite conventional and its current anomalous status is a consequence of the normal workings of market forces.

Plausible though this story is, we argue in this paper that it is probably not an accurate and certainly not a complete description of what transpired. At the very least it does not capture the rich interaction that occurred between financial markets and companies in the UK.

There are many things about it that are at least misleading. The first is that while families were important at the beginning of the twentieth century, their significance did not in general derive from their large-scale ownership of British companies. By way of ownership, families were marginalized rapidly. The pattern of ownership,

¹ Chandler, A.D. (1990), *Scale and Scope: The Dynamics of Industrial Capitalism*, Cambridge: Harvard University Press.

² Landes, D. (1965), “Technological change and development in Wesern Europe 1750-1914”, in H.J. Habakkuk and M. Postan (eds), *Cambridge Economic History of Europe, Vol VI: The Industrial Revolution and After*, Cambridge: CUP, pp 536-64.

which we report above as characterizing corporate Britain today, emerged early in the twentieth century.

The significance of family influence claimed by Chandler comes from a different source. While families rapidly relinquished ownership, they retained control through their positions on the boards of directors. They often held the all-important position of chairman of the board and even if they did not then their board representation was frequently disproportionate to their ownership stakes. This is quite different from the pattern observed in Continental European countries of extensive family ownership with delegated managerial control. In Britain families exerted power without responsibility whereas in most countries they had responsibility with at least limited power.

Still more interesting than the nature of ownership and control was the process by which it came about. Family ownership did not for the most part decline because families sold out. They did not typically abandon firms through company flotations or share sales. Instead, their holdings were diluted in the process of issuing shares to finance growth. In a sample of firms that we will describe below, we estimate that issues of shares associated with acquisitions, rights issues and placings accounted for almost two-thirds of the decline in directors' shareholdings over the period 1900 to 1950. A majority of this issuance arose from one particular activity of firms, namely acquisitions. More than half of the dilution (36.2%) of the 61.6% is associated with issues of shares for acquisitions. Shares were not primarily issued to finance internal but rather to acquire other firms.

The changing pattern of ownership of British firms during the century was primarily a product of the immense amount of takeover activity that occurred during the 20th century. Hannah (1976), for example, documents the three major merger waves that occurred around 1900, 1920 and 1930. Many of these mergers were consolidations of several companies that established the corporate groupings that dominated the rest of the century.

What is remarkable about this process of ownership dilution is that it occurred in equity markets that were largely unregulated with little protection to minority

investors. In this paper we explore this process of acquisition. We document how it went through various stages. In the first half of the twentieth century there was no market for corporate control. All mergers were the result of an agreement between the two or more boards of the merging companies. Often a holding company was created to buy all the shares of the combining firms, with the old boards of directors forming a new board. Mergers were the result of co-operation rather than competition between companies for a target in an auction market.

During the 1940's and 1950's there were important changes in the UK capital markets. Firstly, following a number of scandals, minority investor protection was strengthened at the end of the 1940's. Disclosure was improved and anti-director provisions were introduced. Secondly, there was a sharp increase in institutional ownership. By 1960, institutions were the largest shareholder in more than a third of the companies in our sample. Thirdly, and most significantly, a market in corporate control emerged: "for the first time it became popular for the ownership of public companies to be determined simply by stock market transactions and for control to pass thereby to parties previously unconnected with the firm" (Roberts (1992) p.183).

Charles Clore launched the first hostile takeover in 1953 for a large shoe chain called J. Sears Holdings. This introduced the concept of paying a significant premium for the shares of target firms. Whereas before 1950 there was little difference in cost between partial and full acquisitions, the emergence of hostile takeovers substantially increased the cost of acquiring full ownership. As a consequence, it became attractive to make partial rather than full bids for companies.

Companies responded by attempting to protect themselves and their minority shareholders against the takeover threat. We estimate that within a period of 15 years about 7.5% of listed companies had issued dual class shares with discriminatory voting rights. In others, they sought protection under the wing of a friendly parent. In particular, in the brewing industry, Whitbread provided protection through large stakes to several local brewers under what became known as 'the Whitbread umbrella'.

Partial acquisitions, dual class shares and strategic block holdings gave rise, at least temporarily, to shareholding patterns that are currently commonplace on the Continent but were previously rare in the UK. This is a particularly interesting stage in the development of the British corporation because it could at this point have switched into Continental European mode with dual class shares and pyramids. In Japan, similar takeovers threats in the post WW2 period prompted the erection of elaborate defences in the form of cross-shareholdings that have persisted until today. But this did not happen in Britain. Financial institutions had become steadily more influential investors in equities by the 1950s and 1960s, and with the agreement of the stock exchanges they were able to deny these firms access to the capital markets. The result was the dismantling of these protective measures until they were virtually extinguished by the 1980's. The elimination of dual class shares and pyramids in the UK was therefore due to the dominance of institutional investors. In other countries, corporations were more significant holders of corporate equity³ and derived benefits from the retention of mechanisms such as pyramids and dual class shares for sustaining control.

Instead, the more enduring response to the emergence of a market for corporate control was regulatory. The Takeover Panel was established in 1968. Its first rules included mandatory bid and equal price requirements ensuring offers be made at the same price to all shareholders once 30% of a target had been purchased. These two rules had the effect of both preventing discriminatory price offers and the build up of large share blocks.

By the beginning of the 1970's the key features of current UK corporate ownership and control were in place: substantial institutional shareholdings, a hostile takeover market and extensive minority investor protection. Together they had the effect of establishing active markets in corporate control.

What this paper has documented is that dilution of family ownership has been a feature of the whole of the twentieth century, in large part due to share acquisitions. But not only was acquisition the main cause of the dilution, it was also its main effect.

³ See, for example, Franks and Mayer (2001) for data on corporate holdings in Germany.

At the start of the century families could expect to retain control over extended periods as directors if not owners of their firms and their approval was required before changes in control through takeover could take place. By the end of the century, family board representation was not sufficient to ensure continuity of control in the face of hostile takeovers. This had two consequences. Firstly, the feature that Chandler had noted of the dominance of management by families was less evident by the end of the century. Secondly, dilution of ownership had control as well as cash flow consequences for families. Management had therefore become more professional and families were unable to preserve the continuity of control that they enjoyed in the first half of the century.

In Section 2 we describe the data sets that we employ in this study. In Section 3, we record the evolution of family ownership, board representation and the rise of institutional share ownership. Section 4 describes the merger and acquisitions process in the first of the century. Section 5 looks at how a takeover market emerged in the second half of the twentieth century. Section 6 concludes the article and examines the implications of these developments for family control of British companies.

2 Data

We employ three data sets in this study. The first comprises individual firm data on the ownership, board representation and equity issues of two samples of 25 firms incorporated around 1900 and 1960. The data have been assembled from (i) archives of company accounts and share registers (including names and size of shareholdings) stored at Companies House in Cardiff, (ii) new issue prospectuses at the Guildhall Library in London, (iii) annual issues of the Stock Exchange Year Book which lists names of directors and the sources of any changes in issued capital, and (iv) Official Lists of trading of securities from the British Library in London. Share registers provided evidence of annual ownership changes and the annual returns to Companies House gave details of resignations of existing directors and appointments of new directors.

From these data, we collected names of directors, their shareholdings (including those of their families), the date and amounts of capital issued in acquisitions, new share issues via public and private placements, and other changes in share capital, such as capitalisations of reserves. We traced the founding family ownership from incorporation until the last family member left the board by recording shareholdings and place of residence of family members taking account of name changes across generations, when for example the daughter of a founder married. We also traced shareholdings through intermediary firms. For outside shareholdings, we limited ourselves to stakes greater than 1% of ordinary capital.⁴ We used newspaper archives to document evidence of tender offers and trading in provincial Stock Exchanges, especially in the early 1900s.

The second data set collected for this study includes information on anti-takeover defences (dual class shares, voting right restrictions and insider block holdings) for about 1800 listed firms in two LSE industry classifications, Breweries and Industrials and Commercials.

⁴ Some shareholdings are held through a company.

The third data set comes from Hannah's (1974) list of takeovers over the period 1919 to 1939 and includes announcement dates of takeovers from the Financial Times newspaper, the medium of exchange, dividend changes and board turnover from the Stock Exchange Year Book, and share prices from the Daily Official List (at the Guildhall Library). Newspaper archives are used to document evidence on the hostility of takeover activity, particularly during the 1950s and early 1960s.

3 Ownership and Board Representation

3.1 Ownership

According to Rajan and Zingales (2003), the UK has had one of the largest stock markets in the world throughout the twentieth century. Table 1 reports the number of companies listed on the London Stock Exchange (LSE), and the market value of listed securities for the period 1853 to 1939. As the Stock Exchange did not collect aggregate statistics over this period, several other sources have had to be used. According to Killick and Thomas (1970) and Michie (1999), around 1850, provincial stock exchanges had more listed companies than the LSE - 490 as against 200. Hart and Prais (1956) record a large expansion of listed companies on the LSE over the period 1885 to 1939 though their data only refer to industrial and commercial companies. From 1963, the LSE has kept a continuous series of aggregate equity market values, including preference and dual class shares. One of the most striking features is the marked decline in the number of listed firms that has occurred over the past 40 years (see Table 1).

Table 2 records family shareholdings of a sample of 25 companies incorporated around 1900 and a similar number incorporated around 1960. It documents the number of companies where the founding family's shareholding passes a particular threshold of 25%, 50% and 75% of equity. Franks, Mayer and Rossi (2003) report that insider ownership declined rapidly and at similar rates in the first and second half of the centuries. Rates of ownership dispersion were similar in samples of companies incorporated in 1900 and 1960. Table 2 confirms that family ownership was rapidly diluted throughout the century. By 1940, forty years after incorporation, the number of firms in which families owned more than 25% of shares had declined from 18 to 8.

Table 2 shows that this dilution of family ownership was even more noticeable in the 1960 than in the 1900 sample. For example, in 1940, forty years after incorporation, family ownership passed the 75% threshold in 6 companies in the 1900 sample but in no companies in the 1960 sample. Using the 25% threshold, family ownership persisted in 11 companies thirty years after incorporation in the 1900 sample and in only one in the 1960 sample. Thus the significance of families as inside owners diminished rapidly throughout the century but in particular in the second half of the century.

Table 3 documents how financial institutions emerged to take the place of families as dominant owners of corporate Britain around the middle of the twentieth century. It reports the number of cases where a financial institution was the largest shareholder of our sample of firms. Thirty years after incorporation, there were no cases in the 1900 sample where a financial institution was the largest shareholder compared with 12 in 1990 for the 1960 sample. The average size of institutional stakes was also larger in the second half of the century. The average stake of the 4 financial institutions that were the largest shareholders in the 1900 sample in 1940 was 5.9%, compared with an average stake of 16.2% for 13 companies in the 1960 sample in 2000. Thus, in the first half of the century institutional shareholdings were largely absent, and where they were present they were quite small. In contrast, in the second half of the century, there were a larger number of stakes held by institutions and they were much more significant in size.

In summary, family ownership declined rapidly in the first half of the 20th century and institutions emerged to take the place of families in the middle of the century

3.2 Board representation

Table 4 shows that family representation on boards persisted for much longer than their ownership. It documents the profile of board representation for the two samples of firms at ten yearly intervals. Over forty years from 1900 to 1940, the percentage of board seats held by families declined by only 9% from 51% to 42%. The number of chairmanships held by families fell by only six from 20 to 14. Families retained control through boards that was disproportionate to their ownership.

Table 5 provides a summary description of this. It reports separation of family ownership and control as measured by the difference between family representation on the boards of firms and family ownership of shares. A positive number means that family board representation is disproportionate to their ownership. Table 5 shows that at the beginning of the century, family ownership was high in relation to their board representation. By 1940, their board representation had on average exceeded their ownership claims.

In the second half of the century, family representation on boards declined more rapidly. Forty years after incorporation, a family member was chairman/CEO in three companies in the 1960 sample in comparison with 14 in the 1900 sample. Likewise, the proportion of seats on the boards occupied by families declined to 16% forty years after incorporation in the 1960 sample in comparison with 42% in the 1900 sample. Thus, family representation on boards as well as ownership declined more rapidly in the second than in the first half of the century. Table 4 shows that relative to their ownership stakes, family representation on boards was initially greater in the 1960 than in the 1900 sample, but had become similar in the two samples by forty years after incorporation. Thus families were not able to offset the much more rapid decline in their ownership in the second half of the century through increasing their share of seats on boards of firms.

In summary, dilution of family ownership occurred rapidly throughout the twentieth century. As the next section describes, this was primarily due to growth through acquisition. However, in the first half of the century families were able to retain control through representation on the boards of firms. In the second half, board control as well ownership was rapidly extinguished. A new form of ownership, institutions, emerged in the middle of the century to replace families, and, as we document in Section 5, a new form of corporate control, the hostile takeover, appeared to replace that exerted by families.

4 Mergers and acquisitions in the first half of the century

Franks, Mayer and Rossi (2003) argue that the main cause of dispersion of ownership during the twentieth century was equity issuance. In particular, their sample of 25 firms grew rapidly through acquisition and in the process issued equity to outside shareholders thereby diluting insiders' shareholdings. Franks, Mayer and Rossi report that insider holdings were diluted over the period 1900 to 1950 at an average rate of 12.6% per annum. Of this, none was attributable to IPOs, 4.6% to rights issues, 20.8% to placings and 36.2% to mergers and acquisitions.

During the first half of the century mergers and acquisitions were usually made by the bidder approaching the directors and agreeing to purchase their shares. "An approach through the directors, followed by controlled stock transfers on the recommendations of the directors (rather than contested takeover raids) remained the norm in these years". (Hannah (1974b), p. 68). A price was negotiated and management wrote to the shareholders stating that "the offer has been unanimously accepted by the Directors of your company for the whole of their individual shares, and they have no hesitation in recommending its acceptance to the shareholders."⁵ The same terms were offered to outside shareholders as the directors.

As Hannah (1974b) has noted, "the loyalty of shareholders to directors was strong, and the directors of other companies had a natural aversion to challenging it. Even if a direct bid were to be made, the directors of the victim firm remained in a strong position relative to their own shareholders. In practice the shareholders would recognize the superiority of the directors' information and tend to take their advice on the true value of the company in relation to the bid price." (p. 70-71) "Directors felt a responsibility to recommend offers to their shareholders when the bid price was pitched reasonably." (p. 68-69).

The continuing presence of families on boards, in particular in the position of chairman, even in the absence of ownership, may have been important in upholding reputations. So too were titled directors. Florence (1953) reports that there were 654 English peers as active members of city firms in 1932. Titled directors were particularly common in the largest companies. "At a rough estimate almost half the

⁵ Quote from *Financial Times*, Monday 17 January 1920.

titled directors inherited their title or acquired it by prowess in the fighting services or sport and not in business” (Florence (1953), p 245). “One well-known insurance company in 1937 had among sixteen directors, three knights, one baron, one marquis, one earl and two dukes” (p 245). Likewise, May (1939) reports that of 654 British peers, 189 of them were directors of companies and held 562 directorates between them. “Sometimes a man with a “good name”, knowing nothing about the business and even without residence in the country, is set up as chairman with the principal duty of reading the annual speech, which has been written out for him, to the shareholders” (May (1939), p. 145). As Lord Justice Scrutton said in the Court of Appeal in the judgement on Combined Pulp and Paper Mills Ltd 1932 “the company promoter wants a man whose name will appeal to the public and who does not know too much about the business. The name will attract capital – the company promoter will do the rest” (pp. 35-36 of the transcript).

In Tables 6 and 7 we examine the workings of the acquisitions market in the first half of the century. We undertook a series of tests on bid premia, changes in boards, dividend responses of targets similar to those that are now routinely performed on recent acquisitions in the UK and US. We report data on 41 M&As in the UK over the period 1919 to 1939. This is the entire population of M&As that met three criteria: the market value of target assets exceeded £1 million pounds, the targets were listed on the LSE and they were classified by the LSE as being in one of three industries - breweries and distilleries, industrial and commercial, or iron, coal and steel.

Table 6 shows the proportion of target directors who were retained on the board after the merger, the number of cases in which the chairman was removed and the change in dividends around the announcement of the mergers. On average, two-thirds of the target directors remained on the target’s board after the acquisition. In 14 out of 41 of the cases (approximately one-third), the chairman was removed. In comparison, in a study of 35 successful hostile takeovers in 1985 and 1986, Franks and Mayer (1996) report that 90% of directors were replaced within two years of the bid being consummated. The equivalent figure for 35 accepted bids was 50%. Board turnover was appreciably lower in the first half of the century in comparison with both accepted and hostile bids in the second.

Table 6 also shows very little change in dividends in the year of the bid compared to the previous year in the 1919 to 1939 sample. In comparison, Franks and Mayer (1996) report that dividends were increased in a substantial proportion of both hostile and accepted takeovers in 1985 and 1986. They were increased in 76% of targets of successful hostile takeovers in the year before the bid and in 73% of targets two years before the bid.

But it is in relation to bid premia that the differences are most pronounced. Panel A of table 7 records that in the sample of 40 targets target shareholders received bid premia of -0.9% during the month of the bid (i.e. 'month 0'), calculated on an equal weighted basis. These bid premia are raw equity returns with no adjustment for market movements or risk. Bid premia for months -4 to $+1$ on the same basis were 4.9% . Bid premia were therefore little different from zero. In contrast, Franks and Mayer (1996) report bid premia of between 20 and 30% for hostile and agreed bids during 1985 and 1986 in the UK.

The picture that emerges is one of cooperative consolidations between merging firms in the first half of the century. The support of management was required for approval by shareholders. Bid premia were low, the medium of exchange usually involved share exchanges, management was frequently kept on the target board and dividend changes were modest. Since acquisitions frequently involved share exchanges, acquiring firms avoided the devaluation of their currency that dual class shares would have entailed. The absence of dual class shares in the first half of the century may therefore have been intimately linked to the importance of takeovers and their form of financing.

This picture of cooperation and little competition was rudely shattered in the 1950s, as we will describe in Section 6.

5 Three Case Studies

This section describes three cases that illustrate the way in which three prominent British firms expanded during the 18th, 19th and 20th centuries, the contribution of

acquisitions to their growth, the changing nature of family ownership and board representation, and the contribution of incorporation and mergers to that process.

5.1 GKN

Dowlais Iron Company was set up in 1759 in the village of Dowlais near Merthyr Tydfil in South Wales. John Guest was appointed as manager of Dowlais in 1767, and his grandson became the company's sole owner in 1851. The Dowlais Iron Company was at this stage the largest iron works in the world, operating 18 blast furnaces and employing more than 7,300 people. The business was the first licensee of the Bessemer process, constructing the world's most powerful rolling mill in 1857, and producing its first Bessemer steel in 1865.

The Keen family established the Patent Nut and Bolt Company in 1856 in Smethwick, England. In July 1900, Guest, Keen and Company Limited was incorporated in Birmingham with the purpose of taking over the Dowlais Iron Company and the Patent Nut and Bolt Co., Ltd. The shareholders of the two companies received 250,000 ordinary shares. At the same time, 400,000 ordinary shares were issued via public subscription and the company was floated with 546 ordinary shareholders and more than 2000 preference shareholders. Both classes of shares were traded on the London and Birmingham Stock Exchanges. There was no evidence of the company being dispersed before 1900: the company history suggests that both Dowlais Iron Co. and the Patent Nut and Bolt were 100% owned by directors and their families. Evidence for this comes from a comparison of directors' holdings with the shareholdings of the two companies before the merger. Since directors' holdings after the flotation were 33.6% of the ordinary shares, and the newly issued shares were 400,000, compared with a pre-issue total of 250,000 we can compute a lower bound of directors' ownership pre-issue of 87.3%.

In 1902 the company acquired Nettlefold and Company, one of the world's leading manufacturers of screws and fasteners set up in Smethwick in 1854, by issuing 315,000 new ordinary shares. The new company name was then called Guest, Keen, and Nettlefolds Limited, and Mr Edward Nettlefold joined the board. By 1910, the directors held 26.4% of issued ordinary shares. In 1920, shares in Guest, Keen and

Nettlefolds Ltd. (GKN) were quoted at Birmingham, Bristol, Cardiff, Edinburgh, Glasgow, Liverpool, Manchester and Sheffield, while the prices of the transactions were marked (i.e. reported) on the official list of the London Stock Exchange.

A crucial decade in the evolution of ownership and control of GKN was then about to begin. First, the company acquired John Lysaght Limited of Bristol (also quoted in Bristol and London) in one of the largest tender offers of the decade.⁶ GKN then undertook two other major tender offers in November 1923, acquiring D Davis and Sons and Consolidated Cambrian of Cardiff.

As a consequence of these acquisitions there was a huge increase in the number of shareholders: GKN had about 1,000 shareholders before 1920, and more than 20,000 in 1924. At this stage, GKN was one of the largest manufacturing businesses in the world, involved in every stage of manufacturing from coal and ore extraction to iron and steel making and finally to finished products including the nuts, bolts, screws, and fasteners for which it was renowned during this period.

GKN formally listed on the London Stock Exchange on June 14, 1946. By then the directors owned a negligible stake and the largest shareholder of the period was the Royal Bank of Scotland with 2.37% of issued ordinary shares. In the second half of the century, Prudential Assurance, Norwich Union Life Insurance, Schroder Investment Management, and Scottish Widows Investment Management among others alternated as the largest shareholders with stakes varying from 3% to 5.25% of issued equity capital.

The picture that emerges from GKN is of a firm whose shares were initially traded on local provincial exchanges, that expanded rapidly through acquisitions, broadened its shareholder base both numerically and geographically in the process, and that by the beginning of the second half of the twentieth century was widely held primarily by institutional shareholders.

⁶ Details of the deal are as follows: in January 1920, GKN issued 1,989,919 new ordinary shares and 2,652,331 preference shares. Ordinary shareholders of John Lysaght Ltd were offered 4 new 2nd preference and 3 new ordinary shares in GKN for every 3 ordinary shares held.

5.2 Case Study of Schweppes

In 1783, 43-year-old German born Jean Jacob Schweppe invented an efficient system for the manufacture of mineral water. In 1790, he entered a partnership to expand the business and established a factory in London, UK. Around 1800 he changed his and the business name to Schweppes, while continuing to expand on a national scale. By 1831, J. Schweppes & Co. becomes the Supplier of Soda Water to the Royal Household. In 1834, John Kemp-Welch and William Evill bought J. Schweppes & Co., and extended the product range to include flavoured soda drinks such as lemonade. The following year the firm was awarded the Royal warrant by Queen Victoria, and in 1851 it won the contract to supply “Temperance” beverages at the Great Exhibition in the UK. By 1870, the firm’s product range included Tonic Water and Ginger Ale. The former rapidly became popular with the British in India, as it contained quinine, which was used as a preventive measure against malaria. In 1877 the firm opened its first factory in Sydney, Australia, and seven years later a factory in Brooklyn.

The sudden death of John Kemp-Welch in 1885 precipitated the formation of Schweppes as a limited company in the following year. Although no direct evidence exists on the ownership structure at this stage, it would appear that the company was 100% owned by the directors until its public flotation in London on March 6, 1897. After flotation the directors and their families held collectively 27.2% of the 300,000 ordinary shares. The new company, Schweppes plc, was incorporated to acquire the business of J. Schweppe and Co. established in 1783, and a total of £1,250,000 new capital (of which £300,000 was perpetual debenture stock issued to the directors, and £950,000 was a public subscription, in the form of 300,000 ordinary shares, 300,000 preference shares and 350,000 deferred shares).

The public flotation was extremely successful and probably over-subscribed. At the end of 1897, there were more than 1650 ordinary shareholders and 750 preference shareholders. There was evidence of the company’s shares being traded in Manchester,

In 1919 the Kemp-Welch family relinquished the chairmanship (although two members remained on the board until the early 1940s), and under the new chairman, Sir Ivor Phillips, the company started a new period of expansion. Overseas development was conducted through a newly formed fully owned subsidiary, Schweppes (Colonial and Foreign) Ltd. The strategy was to manufacture locally in the overseas countries, in order to reduce the group's reliance on exports. At the end of Sir Phillips chairmanship in 1940, the company had more than 2,700 ordinary shareholders, and it was formally listed on the London Stock Exchange in December 19, 1942.

During the 1950s there were several major acquisitions paid in shares: L. Rose and Co. acquired in 1957 with 1,544,400 new ordinary shares, and Chivers & Sons, W.P. Hartley, and W. Moorhouse all acquired in 1959 with together 4,000,000 new ordinary shares. In 1969, Schweppes PLC merged with the Cadbury Group to form Cadbury-Schweppes.

5.3 Case Study of Cadbury

In 1794, Richard Cadbury a prominent Quaker moved from the West Country in Britain to Birmingham. Thirty years later his son John opened a shop at 93 Bull Street, then a fashionable part of Birmingham, to sell tea, coffee, hops, mustard, and a new sideline – cocoa and drinking chocolate, which John prepared himself using a mortar and a pestle.

In 1847 John Cadbury took his brother Benjamin into partnership in 1847, changing the name of the business to Cadbury Brothers of Birmingham, and renting a new factory in Bridge Street in the centre of Birmingham. Thanks to a reduction in tax on imported cocoa beans, the business expanded and received the first of a series of Royal Warrants of appointment by Queen Victoria.

The Cadbury Brothers moved their manufacturing operations to Bournville, UK, and establish the Bournville factory and village, which became an important addition to the UK industrial landscape. By the time that Cadbury Brothers was incorporated as a limited company in June 16 1899, the Bournville factory had 2,600 employees. At

that stage, Richard and George Cadbury, the sons of the late John, Cadbury, owned 100% of the ordinary shares.

1919 was a crucial year in the company history when Cadbury Brothers merged with JS Fry & sons of Bristol, whose product range (e.g. Turkish Delight) complemented Cadbury's chocolates. After the merger, the new company was registered as British Cocoa & Chocolate in May 19, 1919, with a capital of £2,500,000. The two families shared both board seats and company ownership, with the Frys holding 4 seats on the board as well as the chairmanship and 45.44% of ordinary shares, and the Cadburys holding the rest (6 seats on the board, and 54.56% of ordinary shares). Another former director of Fry also sat on the board.

As the companies operations expanded, and factories opened around the world, the Fry family board representation declined, while Cadbury's expanded. Shortly before the merger with Schweppes plc in 1969, the Cadbury family held the chairmanship and 7 of the 13 seats of the board of directors, while only one Fry remained on the board. The Cadbury family held slightly more than 50 percent of the ordinary shares, while the Fry family held just over 10%. The rest was dispersed among more than 200 ordinary shareholders. There was evidence of trade on both London and Birmingham Stock Exchanges of ordinary and preference shares before the merger with Schweppes in 1969.

These three case studies illustrate the speed with which ownership was dispersed and how much of the dilution of the original family's ownership was due to acquisitions for share exchanges. They also show how one of the founding families came to dominate the merged entity even where the merger was apparently between equals. This dominance persisted even as the ownership of the founding family dwindled.

5 Takeovers in the second half of the century

In the Spring of 1953, Charles Clore, a self-made millionaire from business and property ventures, launched a bid for J. Sears & Co., the parent company of a shoe shop chain-store, Freeman, Hardy and Willis. Instead of following the conventional approach of negotiating with target management, Clore mailed offer documents direct to Sears' shareholders over the heads of management. "The Sears directors, who were

taken entirely unawares, retaliated by announcing the tripling of the dividend. Shareholders were astonished by this sudden largesse, which was perceived as a desperate and irresponsible act on the part of the management. Faith in the incumbent board being thoroughly undermined, there was a rush to sell to Clore, who quickly acquired control of the company. ‘We never thought anything like this would happen to us’, were the Parthian words of the outgoing Sears chairman.” (Roberts (1992), p. 186).

The unconventional nature of the approach was reflected in exceptional financial features of the bid. In contrast to the observation made above that dividends did not in general change around acquisitions, the Sears’ directors responded to the bid by tripling the value of their dividend. While the average value of bid premia had historically been around zero, the bid premium for Sears was 90% in the month of the bid and 122% in the five months from month -4 to +1.

As Table 7 shows, there were then several bids that recorded bid premia that were very large by previous standards. In the case of the bid by Land Securities Investment Trust in autumn 1953 for the Savoy Hotel Co., owners of the Savoy, Claridge’s and Simpson’s in the Strand, , the bid premium was 19% in the month of the bid and 87% in the five months around the bid. In the bid for British Aluminium by Reynolds Metals of Virginia in 1958, the month zero bid premium was 17% and the five months bid premium was 17%.

It is not entirely clear why the takeover market emerged at this juncture in Britain. Alfred Chandler associates the emergence of a market in corporate control in the US with the rise in institutional shareholding (Chandler (1992)). But, as Table 3 shows, in the UK the market for corporate control predated the accumulation of most institutional shareholdings. A more plausible explanation is that the tighter financial disclosures required of company accounts by the 1948 Companies Act provided the basis on which corporate predators could for the first time make reasonably accurate estimates of asset values and earnings, and thus launch bids without the co-operation of the target (Hannah (1974)). In Charles Clore’s takeover of Sears, Roberts (1992) reports that “Clore launched his attack on being informed by a partner in the estates

agent Healey & Baker that Sears' balance sheet under-estimated the real estate value of the firm's 900 high street stores by £10 million" (page 186).

The response of the corporate sector was to seek protection against the rapidly emerging takeover market. It initially received a sympathetic ear from the government and the Bank of England, which were concerned about the impact of hostile acquisitions on the corporate sector and the government's policy of dividend restraint (Roberts (1992)). All levels of government were involved including in the case of the bid for the Savoy, the Prime Minister, Winston Churchill, who was worried about the possible impact of the bid on his favourite dining club at the Savoy. But while it found this form of buccaneering capitalism distasteful and ungentlemanly, the government felt impotent to do much about it and in any event, by the time of the next merger wave at the end of the 1950's, it had come round to the view that "Mr Clore appears to have improved the retail shoe trade of the country".

Unable to gain protection from the government, the corporate sector began to erect its own defences. Table 8 reports incidence of anti-takeover measures in three years: 1950, 1965 and 1975. In the case of 1965 and 1975 the table also shows changes (adoptions of anti-takeover defences in existing companies, emergence of new companies with anti-takeover defences and abandonment by existing companies) from 1950 and 1965 respectively. Anti-takeover measures are said to exist if any of the following are present: dual class shares, voting restrictions or share blocks by insiders in excess of 50%. Statistics are reported for three London Stock Exchange sector classifications: Commercial and Industrial, Breweries and Distilleries, and Iron, Coal and Steel, which totals more than 2000 companies.

Table 8 reports that the number of companies with anti-takeover measures increased from 73 in 1950 to 249 in 1965. This represents an increase in incidence of anti-takeover measures from 3.7% of the sample to 11.1% between 1950 and 1965. There were 100 new adoptions by companies that were already in existence in 1950 and 92

new companies were formed with anti-takeover defences.⁷ The incidence of takeover defences therefore increased substantially during the 1950's and 1960's.⁸

A further form of takeover defence that emerged was to seek protection under the wing of a friendly company. The brewing industry was particularly fragmented with a large number of small local brewers. Whitbread took share stakes in several of these as a way of providing protection against hostile bidders.

For a brief period during the 1950's and 1960's, the landscape of corporate Britain began to resemble that of Continental Europe. There was an unregulated takeover market with the potential for acquiring control through purchases of partial share stakes and discriminatory offers. Companies responded by introducing dual class shares and voting right restrictions and pyramid structures emerged as companies sought protection under the wing of others.

But these takeover defences met with stiff opposition from an influential quarter – the institutional investors and the London Stock Exchange. They were concerned about the interference with the takeover process, the ability of management to entrench itself behind takeover defences and the withdrawal of their voting rights. Under pressure from the institutions, the Stock Exchange made it known that it disapproved of the use of dual class shares and would not permit their use in new equity issues.

The intervention of the institutions and the Stock Exchange proved decisive and during the 1970's and 1980's companies steadily withdrew dual class shares. Panel C of Table 8 reports that by 1975, the proportion of listed companies with dual class shares in the three sectors had declined from 11.1% to 7.1%. The number of companies in the Commercial and Industrial Sector that dropped dual class shares between 1965 and 1975 was well in excess of those that adopted them. By 1985 the number had dropped to xx.

⁷ There is a residual of 16 companies that were not accounted for.

⁸ The companies with anti-takeover measures were non-acquisitive companies and did not therefore expect to use their own shares to purchase other companies.

Meanwhile, under prompting from the Bank of England, in 1959 the City established a working party to produce a code of conduct for takeovers. This produced a series of initially ineffectual recommendations but, in the face of several prominent takeover scandals⁹ and under the looming threat of legislation, in 1967 it produced the *City Code on Take-overs and Mergers* and created the Panel on Take-overs and Mergers to enforce it.¹⁰ This in due course established the principle of equal treatment of all shareholders, the requirement of acquiring firms to disclose their shareholdings and reveal their intentions, and the obligation to make offers for all shares at highest prices once 30% of the target firm's shares had been acquired. In other words, it recreated by self-regulation the equal price treatment that had prevailed by convention without regulation in the first half of the century before hostile takeovers.

What is striking about these developments is the fact that the political process was not at the end of the day guided by the interests of the corporate sector which sought to limit hostile bids and to erect takeover defences but by those of the financial institutions. It was the institutions that prevented firms from implementing dual class shares and the institutions that drew up the rules by which takeovers were subsequently conducted. It was therefore the financial sector that prevented the UK from drifting into a Continental style corporate structure with dual class shares, pyramids and limitations on takeovers and set the ground rules by which an active market in corporate control could develop. The distinct nature of the UK corporate sector is therefore in part a consequence of the dominance of equity institutions that placed shareholder returns above the private interests of the corporate shareholders on the Continent.

6 Conclusions

This paper has documented the rapid erosion of family ownership of UK corporations during the 20th century. The dispersed ownership which characterizes the UK corporate system today emerged early in the 20th century. The UK did not start off life in the 20th century as Germany or Italy today. In terms of ownership

⁹ One example of this was the Jasper Affair in 1959, involving take-over malpractice and the misuse of building society funds.

concentration and the involvement of families, it looked more like the UK today than Germany or Italy.

The observations on the dominance of families in the running of firms are a reflection of their board representation rather than their ownership. Board participation by families became disproportionate to their ownership stakes. There were good reasons for being concerned about this development. The divergence between ownership and control undermined the efficient running of corporations, as documented by Chandler.

But what was remarkable about this was the process by which it came about. The decline in family ownership was not for the most part a consequence of families selling out but a result of share issuance. These equity issues were not primarily used to finance internal growth (there was rather little use of equity for this purpose in the first half of the 20th century) but to acquire other companies. Equity financed acquisitions accounted for a high proportion of the dilution of family holdings.

What is equally striking is the fact that these substantial equity issues took place against the background of informal, largely unregulated stock markets. Nevertheless, shareholders trusted directors to uphold principles of equal price treatment for all. There was little evidence of the partial share offers and price discrimination that characterizes the takeover market in many countries today.

Why directors abided by this and were not tempted to accept cheaper partial offers at the expense of minority investors is not entirely clear. But one clue comes from the significance of acquisitions and equity issuance to the growth of corporations. Large British companies were particularly reliant on the stock market to fund growth. This may reflect the absence of a local banking system of a type that exists in many other countries and through which companies in those countries are able to establish close relations and borrow on an ongoing basis. To be able to access the stock market, companies in the UK had to sustain the trust of their shareholders, which in part revolved around ensuring that they were equally treated in new share issues. Discriminatory offers might reduce the costs of particular acquisitions but these were

¹⁰ The power of the Panel to sanction firms that do not comply with the Code has proved to be highly effective.

more than offset by the higher cost of using equity in subsequent acquisitions. Regulation was not therefore required since it was in the self-interest of directors to ensure the fair treatment of their shareholders.

The non-discriminatory treatment of shareholders in takeovers also goes some way towards explaining the absence of pyramids in the UK. Acquirors were not able to purchase the partial share stakes in companies that would have allowed them to create pyramids. Target firms were absorbed into the merged company and essentially disappeared as separate listed entities.

However, this collaborative arrangement broke down in the middle of the century in the face of a hostile takeover market. Target directors were no longer in a position to enforce equal price rules since acquirors could go behind their back and appeal directly to controlling shareholders. Directors initially tried to protect themselves and their minority investors by erecting takeover defences. For a brief period, the UK took on the appearance of Continental Europe with dual class shares, pyramids and discriminatory price acquisitions. But the takeover defences incurred the wrath of the institutions, which mounted a successful attack on them through the Stock Exchange and succeeded in devising the rules by which takeovers were to be conducted.

Once again the development of the UK corporate sector was determined by the interests of shareholders to a degree that probably did not occur in most other countries. At an optimistic level, the reason for the oddity of the UK noted at the start is the well-developed and efficient nature of its stock market and the dominance of financial institutions that eschewed the private benefits of Continental Europe. Equally plausibly, it is a consequence of its centralized banking system and the unusual reliance of its corporate sector on the stock market during the 20th century.

Table 1 – The number of companies and market capitalization of companies listed on the London Stock Exchange

This table reports London Stock Exchange statistics on number of listed companies and market capitalization from various sources. Panel A reports various sources pre-1950, and Panel B reports London Stock Exchange data from 1963 to 2000.

Panel A – Various sources, pre-1950

Date	No. listed companies, LSE	No. listed companies, Provincial	Source
1847		490 ²	Killick and Thomas, 1970
1853	200		Michie
1913	1,700		Rajan & Zingales, 2003
1885	70 ¹		Hart & Prais, 1956
1907	571 ¹		Hart & Prais, 1956
1939	1,712 ¹		Hart & Prais, 1956

¹Industrial companies only (Hart and Prais).

²Manchester, Newcastle, Liverpool, and Leeds.

Panel B – London Stock Exchange data from 1963

Date	UK				International		
	No. of companies	No. of equity securities	Market value (£/M)	GDP current prices	Market development	No. of companies	Market value (£/M)
31.03.63	4,409	4,064	32,204				
31.03.70	3,418	3,197	37,793	44,200	0.86	387	57,135.0
31.12.80	2,747	2,283	86,720	201,000	0.43	394	183,846.8
31.12.90	2,006	2,081	450,544	479,000	0.94	553	1,124,131.0
31.12.00	1,904	2,272	1,796,811			501	3,525,701.4

Source: London Stock Exchange

Table 2 – Family shareholdings and ownership thresholds

This table reports the number of companies in our sample where the founding family owns more than 25%, 50%, and 75% of issued ordinary share capital, respectively. Panel A refers to the 1900 sample, and Panel B to the 1960 sample.

Panel A: Number of companies where founding family shareholdings exceed 25%, 50%, and 75% of issued ordinary share capital for selected years, 1900 sample

	25%	50%	75%	n. obs
1900	18	13	12	25
1910	15	11	11	25
1920	15	12	10	25
1930	11	8	6	25
1940	8	7	6	25
1950	7	6	5	24
1960	5	3	2	23
1970	2	1	1	22
1980	1	1	1	21
1990	0	0	0	21
2000	0	0	0	20

Panel B: Number of companies where founding family shareholdings exceeds 25%, 50%, and 75% of issued ordinary share capital for selected years, 1960 sample

	25%	50%	75%	n. obs
1960	20	19	11	25
1970	10	7	5	25
1980	9	3	2	23
1990	1	1	0	22
2000	0	0	0	20

Source: Own calculations

Table 3 – Is the largest shareholder an institution?

This table reports the number of companies where the largest shareholder is an institution, along with the average size of these largest block holdings, for the 50 companies in our sample. Panel A refers to the 25 companies incorporated around 1900 and Panel B to the 25 companies incorporated around 1960.

Panel A: Number of companies where the largest shareholder is an institution and block size for selected years, 1900 sample

	Largest shareholder is an institution	Block Size	n. obs
1900	0	.	25
1910	1	5.00	25
1920	0	.	25
1930	0	.	25
1940	4	5.89	25
1950	7	3.73	24
1960	8	4.18	23
1970	9	5.35	22
1980	8	6.46	21
1990	17	10.83	21
2000	17	12.85	20

Panel B: Number of companies where the largest shareholder is an institution and block size for selected years, 1960 sample

	Largest shareholder is an institution	Block Size	n. obs
1960	0	.	25
1970	5	5.79	25
1980	6	15.13	23
1990	12	16.50	22
2000	13	16.20	20

Source: Own calculations

Table 4– Board composition

This table reports board size and the percentage of board members that do not come from the founding family for the 50 companies in our sample. Panel A refers to the 1900 sample and Panel B to the 1900 sample.

Panel A: Board composition for selected years, 1900 sample

	Board size		Family CEO	Board members outside founding family (%)		n. obs
	Mean	Median		Mean	Median	
1900	5.92	5.00	20	48.63	41.45	25
1910	6.74	5.00	20	45.92	52.75	25
1920	7.00	5.00	16	60.13	66.60	25
1930	7.40	6.00	14	63.03	72.35	25
1940	7.16	6.00	14	61.63	71.55	25
1950	7.63	6.50	12	68.40	87.50	24
1960	8.04	7.00	7	72.69	100	23
1970	9.00	8.00	4	79.12	100	22
1980	8.24	7.00	4	86.78	100	21
1990	8.24	8.00	2	90.68	100	21
2000	7.90	7.00	2	92.51	100	20
Mean	7.53		10.92	69.96		

Panel B: Board composition for selected years, 1960 sample

	Board Size		Family CEO	Board members outside founding family (%)		n. obs
	Mean	Median		Mean	Median	
1960	3.16	3.00	21	46.69	41.65	25
1970	5.72	5.00	15	67.94	77.50	25
1980	6.64	6.00	9	77.12	86.65	23
1990	7.09	7.00	4	84.14	100	22
2000	7.00	6.00	3	83.62	100	20
Mean	5.83		10.90	71.90		

Source: Own calculations

Table 5— Separation of ownership and control

This table reports mean and median separation of ownership and control for the 50 companies of our sample. Separation is defined as the difference between the proportion of founding family members on the board and family shareholdings. Panel A refers to the 1900 sample, and Panel B the 1960 sample.

Panel A: Separation of ownership and control for selected years, 1900 sample

	Mean	Median	n. obs
1900	-4.58	0	25
1910	3.53	0	25
1920	-7.25	0	25
1930	6.33	0	25
1940	12.79	8.21	25
1950	10.41	7.40	24
1960	12.45	0	23
1970	12.60	0	22
1980	11.13	0	21
1990	8.71	0	21
2000	6.69	0	20
Mean	6.62		

Panel B: Separation of ownership and control for selected years, 1960 sample

	Mean	Median	n. obs
1960	1.15	0	25
1970	4.23	0	25
1980	6.09	0	23
1990	9.55	0	22
2000	11.94	0	20
Mean	6.59		

Source: Own calculations

Table 6– Takeovers in the U. K., 1919–1939: Target board turnover and dividend changes

This table reports the proportion of target directors that resign after a takeover, the number of target companies where the chairman resigns and the proportion of target companies keeping the dividend constant 2 years prior to the takeover for a sample of 40 takeovers over the period 1919–1939.

Time period	Proportion of target board resigning after takeover	Chairman resigned	Dividend constant	No. of obs.
1919–1923	5.36%	0	10	11
1924–1928	33.76%	3	11	12
1929–1933	16.68%	2	7	7
1934–1939	57.80%	9	8	10
Total	30.28%	14		40

Source: Hannah (1974) and own calculations

Table 7 – Bid premia in the UK

This table reports the bid premiums for the UK in the twentieth century. Panel A considers 40 UK takeovers over the period 1919–1939 and computes premia as the raw (unadjusted) stock returns for targets over the periods (–4 to +1) months and month 0, where month 0 is the announcement month. Panel B refers to the first three hostile takeover bids of the 1950s, as reported in Roberts (1992), and computes premia as in Panel A. Panel C refers to the 1,463 UK takeovers in the period 1955–1985, and computes premia as the market-adjusted stock returns for targets over the periods (–4 to +1) months and month 0, where month 0 is the announcement month. The source for Panel C is Franks and Harris (1989).

Panel A – Bid Premia in the U. K.: 1919–1939

Time Period	No.	Months –4 to +1		Month 0	Total Market Value (£/millions)
		EW		EW	
1919–23	11	–10.02%		–3.34%	31.5
1924–28	12	+14.69%		+0.55%	43.3
1929–33	7	– 2.45%		–1.13%	19.0
1934–39	10	+14.84%		+0.22%	26.6
Mean		+ 4.93%		–0.90%	

Source: Hannah (1976) and own calculations

Panel B – Bid Premia in the U. K.: Hostile Takeovers 1953–1958

Year	Target	Months –4 to +1		Month 0
		EW		EW
1953	J. Sears	122.22%		90.48%
1958	Savoy Hotel	87.00%		19.53%
1958	British Aluminium	39.53%		17.47%
Mean		82.92%		42.49%

Source: Own calculations

Panel C – Bid Premia in the U. K.: 1955–1985

Time Period	No.	Months –4 to +1		Month 0		Total Market Value (£/billions)
		EW	VW	EW	VW	
1955–59	151	28%	25%	16%	11%	0.5
1960–64	190	24%	26%	18%	14%	1.4
1965–69	262	27%	24%	19%	12%	3.7
1970–74	196	35%	41%	25%	23%	2.8
1975–79	383	38%	34%	30%	22%	3.8
1980–84	281	27%	27%	25%	30%	10.0
Mean		30%	30%	22%	19%	

Source: Franks and Harris (1989)

Table 8 –Incidence of anti–takeover measures

This table reports the incidence of anti-takeover measures (dual class voting, voting restrictions and insider ownership greater than 50%) in the U.K in 1950 in Panel A, 1965 in Panel B and 1975 in Panel C.

Panel A – 1950

	No of companies	% of quoted companies
Commercial and Industrial	56	3.60%
Breweries and distilleries	13	6.30%
Iron, Coal and Steel	4	1.82%
Total	73	3.68%

Panel B – 1965

	Static Analysis		Dynamic Analysis (since 1950)		
	No of companies	% of quoted companies	Adoptions	New companies	Residual
Commercial and Industrial	236	11.80%	98	86	4
Breweries and distilleries	10	10.20%	2	4	9
Iron, Coal and Steel	3	2.21%	0	2	3
Total	249	11.15%	100	92	16

Panel C – 1975

	Static Analysis		Dynamic Analysis (since 1965)			
	No of companies	% of quoted companies	Adoptions	New companies	Dropped	Residual
Commercial and Industrial	145	7.25%	18	7	32	84
Breweries and distilleries	6	6.06%	1	0	1	4
Iron, Coal and Steel	1	2.08%	0	0	1	1
Total	152	7.08%	19	7	34	89

Source: Own calculations

References

- Becht, Marco, and Colin P. Mayer, 2001. "Introduction" in Barca, Fabrizio, and Marco Becht, (eds.), 2001, *The Control of Corporate Europe*. Oxford University Press, Oxford.
- Berle, Adolf A., and Gardiner C. Means, 1932. *The Modern Corporation and Private Property*. Macmillan, New York: NY.
- Cairncross, Alec K., 1953. *Home and Foreign Investment, 1870-1913*. Cambridge, U.K..
- Cairncross, Alec K., 1958. The English capital market before 1914. *Economica* 25, 142-146.
- Chandler, Alfred D., 1990. *Scale & Scope: The Dynamics of Industrial Capitalism*. Harvard University Press, Cambridge: MA.
- Code Holland, R. H., and John N. Werry, (eds.), 1932. *Poley's law and practice of the stock exchange*. Sir Isaac Pitman & Sons, London.
- Davies, Paul L. (ed.), 1979. *Gower's Principles of Modern Company Law* (4th ed). Stevens & Sons, London.
- Demsetz, Harold, 1983. The structure of ownership and the theory of the firm. *Journal of Law and Economics* 26, 375-390.
- Demsetz, Harold, and Kenneth Lehn, 1985. The structure of corporate ownership: Causes and consequences. *Journal of Political Economy* 93, 1155-1177.
- Florence, P. Sargant, 1953. *The logic of British and American industry*. Routledge & Kegan Paul, London.
- Franks, Julian R., and Robert S. Harris, 1989. Shareholder wealth effect of corporate takeovers. The U.K. experience 1955-1985. *Journal of Financial Economics*, 23 225-249.
- Franks, Julian R., and Colin P. Mayer, 2001. Ownership and control of German corporations. *Review of Financial Studies* 14, 943-977.
- Franks, Julian R., and Colin P. Mayer, 1996. Hostile takeovers and the correction of managerial failure. *Journal of Financial Economics* 40, 163-181.
- Franks, Julian R., Colin P. Mayer, and Luc Renneboog, 2001. Who disciplines management in poorly performing companies? *Journal of Financial Intermediation* 10, 209-248.
- Franks, Julian R., Colin P. Mayer, and Stefano Rossi, 2003. Ownership: Evolution and regulation. Mimeo, London Business School and Saïd Business School, University of Oxford.

- Goshen, Zohar, 1998. Voting in conflicts of interests in corporate law and minority protection. Mimeo.
- Hannah, Leslie, 1974a. Mergers in British manufacturing industry 1880-1918. *Oxford Economic Papers* 26, 1-20.
- Hannah, Leslie, 1974b. Takeover bids in Britain before 1950: An exercise in business 'pre-history'. *Business History* 16, 65-77.
- Hannah, Leslie, 1976. *The rise of the corporate economy*. Methuen, London.
- Hart, P.E. and Prais, S.J., 1956. The analysis of business concentration: a statistical approach. *Journal of the Royal Statistical Society* 119, 150-191.
- Hoffman, Leonard H. H., 1999. Foreword to Hollington, Robin, 1999, *Minority Shareholders' Rights*. Sweet and Maxwell, London.
- Holderness, Clifford, Randall Kroszner, and Dennis Sheehan, 1999. Were the good old days that good? Changes in managerial stock ownership since the Great Depression. *Journal of Finance* 54, 435-469.
- La Porta, Rafael, Florencio Lopez-de-Silanes, and Andrei Shleifer, 1999. Corporate ownership around the world. *Journal of Finance* 54, 471-517.
- La Porta, Rafael, Florencio Lopez-de-Silanes, Andrei Shleifer, and Robert W. Vishny, 1998. Law and finance. *Journal of Political Economy* 101, 678-709.
- Lavington, Frederick, 1921. *The English Capital Market*. Methuen, London.
- May, Wilfred, 1939. Financial regulation abroad: The contrasts with American technique. *Journal of Political Economy* 47, 457-496.
- Meeks, Geoffrey and Geoffrey Whittington, 1975. Giant companies in the United Kingdom, 1948-69. *The Economic Journal* 85, 824-843.
- Michie, Ranald C., 1999. *The London Stock Exchange: A History*. Oxford University Press, Oxford.
- Morck, Randall, David Stangeland, and Bernard Yeung, 2000. "Inherited wealth, corporate control, and economic growth," in Randall Morck (ed.) *Concentrated Corporate Ownership* NBER conference volume, University of Chicago Press.
- Morgan, E. Victor, and William A. Thomas, 1962. *The Stock Exchange: Its History and Functions*. Elek Books, London.
- Pagano, Marco, Fabio Panetta, and Luigi Zingales, 1998. Why do companies go public? An empirical analysis. *Journal of Finance* 53, 27-64.
- Paish, Frank W., 1951. The London new issue market. *Economica* 28, 1-17.

Sargant Florence, 1947. Proceedings of the First Ordinary Meeting of the Session, 1946-47, held on November 27th, 1946, The President, The Rt. Hon. Lord Woolton, P. C., C. H., in the Chair. *Journal of the Royal Statistical Society* 110, 1-26.

Rajan, Raghuram G., and Luigi Zingales, 2002. The great reversals: The politics of financial development in the 20th Century. *Journal of Financial Economics*, forthcoming.

Roberts, Richard, 1992. Regulatory responses to the rise of the market for corporate control in Britain in the 1950s. *Business History* 34, 183-200.

Roe, Mark J., 1994. *Strong managers, weak owners: The political roots of American corporate finance*. Princeton University Press, Princeton: NJ.

Schwabe, Walter S., and G. A. H. Branson, 1913. *A treatise on the laws of the stock exchange*. Butterworth and Co., London.

Thomas, William A., 1973. *The Provincial Stock Exchanges*. Frank Cass, London.

White, Halbert S., 1980. A heteroskedasticity-consistent covariance matrix estimator and a direct test for heteroskedasticity. *Econometrica* 48, 817-838.

Xu, Chenggang and Katharina Pistor, 2002. Law enforcement under incomplete law: Theory and evidence from financial market regulation. Mimeo, London School of Economics.

about ECGI

The European Corporate Governance Institute has been established to improve *corporate governance through fostering independent scientific research and related activities*.

The ECGI will produce and disseminate high quality research while remaining close to the concerns and interests of corporate, financial and public policy makers. It will draw on the expertise of scholars from numerous countries and bring together a critical mass of expertise and interest to bear on this important subject.

The views expressed in this working paper are those of the authors, not those of the ECGI or its members.

ECGI Working Paper Series in Finance

Editorial Board

Editor	Paolo Fulghieri, Professor of Finance, University of North Carolina, INSEAD & CEPR
Consulting Editors	Franklin Allen, Nippon Life Professor of Finance, Professor of Economics, The Wharton School of the University of Pennsylvania Patrick Bolton, John H. Scully '66 Professor of Finance and Economics, Princeton University, ECGI & CEPR Marco Pagano, Professor of Economics, Università di Salerno, ECGI & CEPR Luigi Zingales, Robert C. McCormack Professor of Entrepreneurship and Finance, University of Chicago & CEPR Julian Franks, Corporation of London Professor of Finance, London Business School & CEPR Xavier Vives, Professor of Economics and Finance, INSEAD & CEPR
Editorial Assistant :	Cristina Vespro, ECARES, Université Libre De Bruxelles

Financial assistance for the services of the editorial assistant of these series is provided by the European Commission through its RTN Programme on Understanding Financial Architecture: Legal and Political Frameworks and Economic Efficiency (Contract no. HPRN-CT-2000-00064).

Electronic Access to the Working Paper Series

The full set of ECGI working papers can be accessed through the Institute's Web-site (www.ecgi.org/wp) or SSRN:

Finance Paper Series	http://www.ssrn.com/link/ECGI-Fin.html
Law Paper Series	http://www.ssrn.com/link/ECGI-Law.html